

ABSTRACT

Compensation granted to board of directors and board of commissioner intended to reduce the existence of agency problem. Compensation can be used to motivate directors and commissioners to improve performance of a company which will add wealth for the stockholders.

This research try to study about influence on executive compensation to financial performance at banking industry. Dependent variable used in this research is financial performance of the year measured in return on assets and return on equity while executive compensation granted the year before is used as independent variable. Financial performance the year before and size of the company used as control variables. Pooled OLS Regression technique analysis used to test the model, whether any positive influence of compensation on financial performance or not.

This research find that there is a positive and significant impact on executive compensation to ROE. Further, there is no influence between executive compensation with ROA.

Keyword: compensation, financial performance, agency problem, return on assets, return on equity.